



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Military Department

For the period July 1, 2017 through June 30, 2020

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Office of the Washington State Auditor Pat McCarthy

November 15, 2021

Major General Bret Daugherty, Director
Military Department
Tacoma, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Department operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the Department's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, Department operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the Department could make improvements. These recommendations are included with our report as a finding.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the Military Department from July 1, 2017 through June 30, 2020.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.310, which requires the Office of the Washington State Auditor to examine the financial affairs of all state agencies. Our audit involved obtaining evidence about the Department's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the years ended June 30, 2020, 2019 and 2018, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Payroll – overtime
- Rental Lease Program

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Military Department July 1, 2017 through June 30, 2020

2020-001 The Military Department did not comply with state law and departmental policies for the Rental Lease Program.

Background

The Military Department (Department) shares the use of National Guard Readiness Centers through a rental lease program, which supports the Washington Army National Guard's (WAARNG) mission of providing service and support to local communities. Department procedure WAARNG Regulation 210-1 (Installation/Facilities Rental/Lease Procedures) establishes policy, procedures and guidance to administer and manage the rental, facility use, or lease of federal and state owned facilities used by the Washington Army National Guard.

The Construction and Facility Management Office (Office) manages the rental lease program and executes agreements for the Department. The program is facilitated through the various building managers at each of the Readiness Centers throughout the organization. Building managers are responsible for the rental of their respective facilities. They prepare and submit rental agreements along with required rent, administrative fees, damage deposits, utilities payments and insurance documentation to the Office for approval within seven days of the event. Lease agreements are prepared by the Office and submitted to the Adjutant General for approval.

Funds collected from the rental or lease of the Readiness Centers are deposited into the Washington State Treasury as required by Revised Code of Washington (RCW) 38.40.210 and managed by the Finance Director. It is the intent of The Adjutant General (TAG) that monies received from the rental or lease of state owned, federally supported facilities be used for maintenance or improvements of that facility.

The Department received approximately \$300,000 in 2018, \$393,000 in 2019 and \$450,000 in 2020 in revenue related to the Rental Lease Program.

Description of Condition

We selected and examined seven of 40 rental agreements and five of 33 lease contracts, totaling approximately \$158,000, to determine if fees were appropriately

calculated and collected, and refunded deposits were appropriately documented in compliance with Departmental policies, procedures and state law.

We found the Department did not comply with Department procedures and state law. We found:

- The Department was unable to provide documentation for two of the seven rental agreements, including documentation to support whether the Department received the correct rent, administrative, and utilities payments.
- We examined the five rental agreements for which documentation was provided and found:
 - For one agreement the Property and Acquisitions Manager did not sign the agreement and did not submit payment to Finance until after the event.
 - For two agreements the Department did not have copies of insurance documentation on file as required.
 - For two agreements the Department did not collect a damage deposit as required.
 - Although payments were received and deposited, for two samples the Department did not document receipt of funds on the rental agreement.
 - Of the five lease contracts we examined, we found:
 - One lease contract was not signed by the TAG as required. However, each contract amendment contained the TAG's signature.
 - For two lease contracts, the Department was unable to provide documentation to show that it received payments.

Cause of Condition

Administration of the Rental Lease Program is decentralized because facilities are located throughout the state. As a result, staff may have insufficient training on established processes and procedures and lack understanding of roles and responsibilities. In addition, management oversight is insufficient to ensure consistent compliance with policies and state law.

Effect of Condition

By not establishing adequate internal controls, the Department is at a higher risk of not receiving all revenues it is entitled to. By not maintaining appropriate documentation, we were unable to determine whether revenue for the Rental Lease Program was appropriately calculated and collected.

As a result of the conditions listed above, we determined the Department may not have collected \$1,948 in revenues from rentals and leases.

Recommendation

We recommend the Department improve its internal controls over the rental lease program. Specifically, we recommend the Department:

- Follow established departmental procedures over the rental lease program
- Ensure staff understand roles and responsibilities and receive training on department procedures
- Ensure management oversight is sufficient to ensure compliance with policies and state law

Department's Response

The Military Department agrees with the auditor's recommendations. The Finance Division will collaborate with CFMO to conduct the following corrective actions:

- *review and update the Department's Procurement, Contracting, and Leasing policy (FIN-111-02)*
- *establish inter-divisional procedures to implement the rent and lease programs in accordance with policy, laws, and regulations*
- *ensure management oversight and staff responsibilities align and support established internal controls*
- *provide procedural and internal controls training to staff engaged in the rent and leased programs*

Auditor's Remarks

We thank the Department for its assistance and cooperation throughout the audit. We will review the status of the Department's corrective action during our next audit.

Applicable Laws and Regulations

RCW 38.20.10 Regulations governing armories.

Except as provided in this section, state-owned armories shall be used strictly for military purposes.

- (1) One room, together with the necessary furniture, heat, light, and janitor service, may be set aside for the exclusive use of bona fide veterans'

organizations subject to the direction of the officer in charge. Members of these veterans' organizations and their auxiliaries shall have access to the room and its use at all times.

- (2) A bona fide veterans' organization may use any state armory for athletic and social events without payment of rent whenever the armory is not being used by the organized militia. The adjutant general may require the veterans' organization to pay the cost of heating, lighting, or other miscellaneous expenses incidental to this use.
- (3) The adjutant general may permit transient lodging of service personnel in armories.
- (4) The adjutant general may, upon the recommendation of the executive head or governing body of a county, city or town, permit transient lodging of anyone in armories. The adjutant general may require the county, city or town to pay no more than the actual cost of staffing, heating, lighting and other miscellaneous expenses incidental to this use.
- (5) Civilian rifle clubs affiliated with the National Rifle Association of America are permitted to use small arms ranges in the armories at least one night each week under regulations prescribed by the adjutant general.
- (6) State-owned armories shall be available, at the discretion of the adjutant general, for public and private use upon payment of rental charges and compliance with regulations of the state military department. Children attending primary and high schools have a preferential right to use these armories.

The adjutant general shall prepare a schedule of rental charges, including a cleaning deposit, and utility costs for each state-owned armory which may not be waived except for activities sponsored by the organized militia or activities provided for in subsection (4) of this section. The rental charges derived from armory rentals less the cleaning deposit shall be paid into the military department rental and lease account under RCW 38.40.210.

RCW 38.40.210 Military department rental and lease account.

The military department rental and lease account is created in the state treasury. All receipts from the rental or lease of state-owned military

department property must be deposited into the account. Money in the account may be spent only after appropriation. Expenditures from the account may be used only for operating and maintenance costs of military property.

WA Army National Guard Regulation 210-1 Installation/Facility Rental/Lease Procedures

3-1. RENTAL PROCEDURES. The rental of state Readiness Centers shall be governed by the following guidelines/procedures: All MIL 80's for all state and/or federal Readiness Centers will be completed and approved prior to the facility being made available to the renter. The following procedures will be followed to complete the application process.

- a. The prospective renter will complete a MIL Form 80 for rental of a facility, sign it (front and back), and return it to the Building Manager along with a check for payment of rent, utilities, and damage deposit.
- b. Determine Charges/Fees
 - (1) Rental fees per fee schedule
 - (2) Utilities
 - (3) Damage deposit will be \$100.00 or 40% of the rental charge, whichever is greater. State and federal agencies are exempt from providing a security deposit. However, these groups may be barred from further use of the facility if they do not properly clean or if the facility is damaged. A warning may be given to the state or federal agency to bring the premises back to the original condition before further action is taken against the agency.
 - (4) At the time of execution of all rental agreements, an administrative fee, of not less than \$25.00 or as specified in the MIL Form 80, for each scheduled event is needed to reserve a specific date for that user. This amount will not be refunded.

c. Types of Payments

- (1) If the rental is in less than seven (7) days prior to the event, then a money order or cashier's check will be required for the rental.
- (2) If the rental will be in more than seven days, a check will be accepted.
- (3) The check will be made payable to the Washington Military Department.
- (4) No cash shall be accepted.
- (5) Any individual or organization whose rental check is returned for non-sufficient funds (NSF), stop payment, or any other reason will be barred from further rental of any WAARNG facility. A returned check fee of \$25.00 will be charged on all returned checks and said \$25.00 will be deposited into the general fund.

d. Rental Agreement Execution

- (1) The Building Manager will submit the MIL Form 80, with a check for all charges and fees per (2) above to the RPM, as soon as possible and within seven days prior to the event.
- (2) When approved, the RPM will forward the cashier's check or money order to the Washington Military Department Finance Division for the deposit of the payment, along with all copies of the WMD Form 80.
- (3) Upon receipt, State Financial Services will deposit payment in accordance with the Office of Financial Management regulations and properly annotate the receipt of funds on the MIL Form 80. Utility charges will be recorded as a recovery of expenditure against the utility operating costs of the Readiness Center. The deposit will be retained through the end of the rental period. The RPM will forward the yellow and pink copies to the Building Manager, while the white copy of the MIL Form 80 is retained by the RPM for three years. The renter will receive the pink copy from the Building Manager when it is returned from the RPM.

- (4) Upon receipt of an approved and fully executed MIL Form 80, the Building Manager will retain the yellow copy and forward the pink copy to the renter.
- (5) There is no in-kind payment made in lieu of rental charge, without the prior written approval from TAG or his/her authorized representative. If it is determined that it is in the best interest of a facility, the Station Commander or authorized representative must submit a written statement along with the MIL Form 80 stating the value of services received are equal or greater than the value of rental charges that would have been received. Also, the service to be rendered will be specifically outlined in the statement. If the value of services exhibits unsatisfactory standards, the Station Commander may authorize the immediate demand of payment of rental charges as per the MIL Form 80.
- e. If for any reason the renter does not use the facility, the Building Manager will notify the RPM in writing and/or e-mail. State Financial Services will compute any refund due the renter and issue a refund check. A processing fee of \$25.00 will be retained and deposited into the Readiness Center rental fund.
- f. Requirements during and after use.
 - (1) Groups renting a WAARNG facility must have copy of MIL Form 80 available.
 - (2) Any required permits or licenses during the entire rental period.
 - (3) Local ordinances may require vendor or food service permits (including charitable events).
 - (4) Permits are the responsibility of the renter; however, the Building Manager should become familiar with their local city/county requirements.
 - (5) Damage deposits are refundable to the renter if the facility is undamaged and adequately cleaned to the Building Manager's standards at the end of the rental event.

(6) The renter is solely responsible for cleaning the facility. The renter may do the cleaning or hire non-military personnel to do the cleaning provided that in either case, the deposit must be paid and retained until the facility is properly cleaned.

g. The Building Manager shall notify the RPM when the facility is appropriately cleaned and if left undamaged at the end of the rental period, State Finance will issue a refund of the security deposit to the renter upon notification from the RPM. If no such notice is given or no refund is due to the renter, the security deposit will be kept in accordance with Office of Financial Management regulations and will be used to pay for cleaning and/or repair costs.

h. Damaged or Missing Property.

(1) Damaged and/or missing property will result in a claim against the liability insurance policy provided by the lessee/renter. When a loss or damage is discovered, an incident report will be forwarded through proper channels with a copy to the RPM. The lessee/renter shall be contacted and offered one opportunity to correct the problem prior to filing a claim.

(2) The Attorney General's Office (AG) will receive notice of the Incident Report that has not been corrected and may file a claim for recovery of damages. (This is a state facility, the Attorney General Office should be involved. The JAG has no legal authority.)

(3) The Washington Military Department is not responsible for any damage or loss occurring to any of the renter's property during the rental of a Readiness Center.

3-2. LEASE PROCEDURES. All leases are negotiated, prepared and approved through the Real Property Office and signed by The Adjutant General.

RELATED REPORTS

Financial

We perform an annual audit of the statewide basic financial statements, as required by state law (RCW 43.09.310). Our opinion on these financial statements is included in the Annual Comprehensive Financial Report (ACFR). The ACFR reflects the financial activities of all funds, organizations, institutions, agencies, departments and offices that are part of the state's reporting entity. That report is issued by the Office of Financial Management in December of each year and can be found at www.ofm.wa.gov.

Federal programs

In accordance with the Single Audit Act, we annually audit major federal programs administered by the state of Washington. Rather than perform a single audit of each agency, we audit the state as a whole. The results of that audit are published in a report issued by the Office of Financial Management in March of each year.

Performance audits

Initiative 900, approved by voters in 2005, gives the State Auditor's Office the authority to conduct independent performance audits of state and local government entities. Performance audits may include objective analysis on ways to improve program performance and operations, reduce costs and identify best practices.

We issued the separate Opportunities to Improve Washington's Preparedness Efforts in Emergency Management performance audit report, which is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DEPARTMENT

The Washington Military Department's mission is to minimize the impact of emergencies and disasters on people, property, environment, and the economy of Washington by providing trained and ready forces for state and federal missions. The Department also provides structured alternative education opportunities for at-risk youth. The Department is based at Camp Murray and operates facilities across the state. It has five major operational divisions: Army National Guard, Air National Guard, Emergency Management, Washington Youth Academy and State Services. These divisions utilize state and federal resources to perform homeland defense, homeland security, and emergency mitigation, preparedness, response and recovery activities. The Department has a strong culture of service. In state fiscal year 2020, the Department expended \$160 million and had over 500 full and part-time employees, including service members on State Active Duty to support COVID-19 response operations.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for the Military Department at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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